HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Victoria CMA

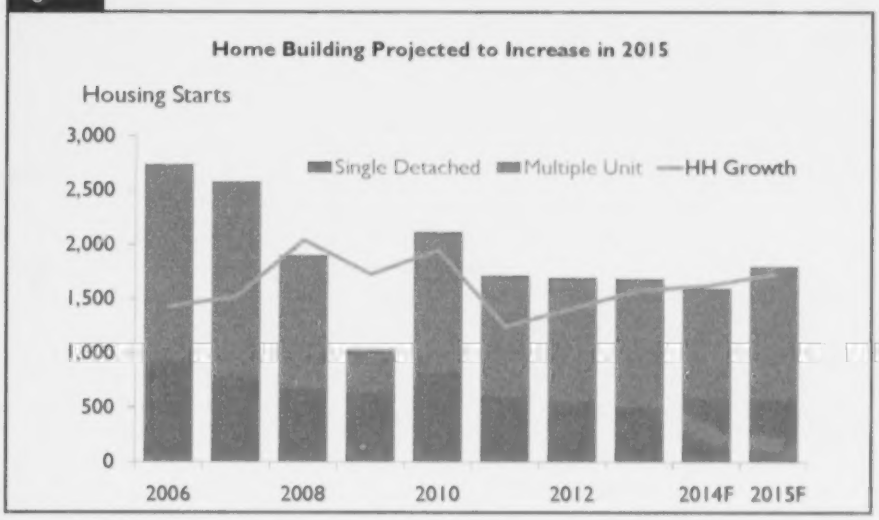
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Victoria Highlights[1]

- New home construction is forecast to decline five per cent to 1,600 starts in 2014 and to increase to 1,800 units[1] in 2015.
- MLS® sales are expected to maintain a steady pace this year and next, edging higher to 5,700 transactions in 2014 and 5,800 units in 2015.
- Rental vacancy rates will remain relatively stable, increasing marginally to three per cent in 2014, before dipping to 2.7 per cent next year.
- Economic fundamentals including employment and population growth will support a stable housing market through 2015.

Figure 1



Source: CMHC

[1] The forecasts included in this document are based on information available as of April 30, 2014

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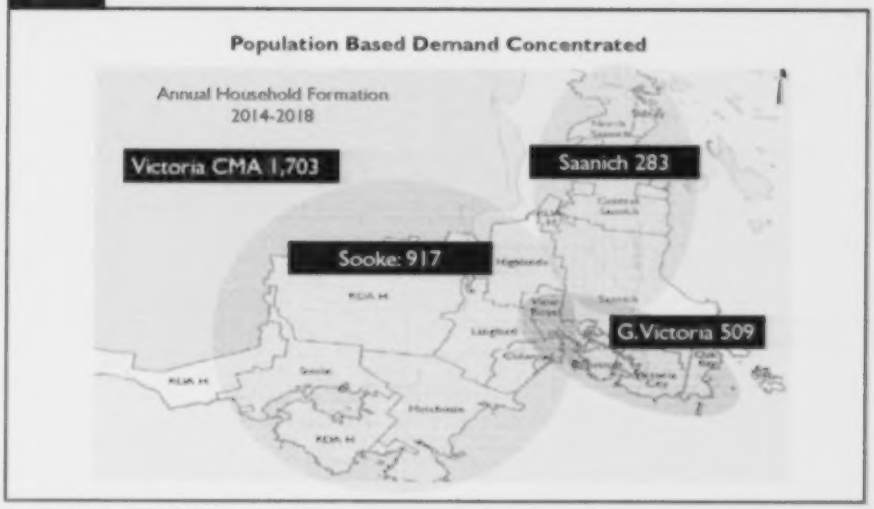
New Home Construction to Moderate Before Rebounding

Demand for new homes in the Victoria Census Metropolitan Area (CMA) will be supported through the forecast horizon by modest employment and population growth, combined with low mortgage interest rates. Housing starts are forecast to move five per cent lower in 2014, totaling 1,600 units. An increase in single-detached home starts is expected to offset some of the decline in multiple-unit construction driven mainly by fewer apartment starts compared to last year. In 2015, as the economy picks up steam and generates more robust employment growth, housing starts are forecast to increase to 1,800 units. Multiples home building will account for the projected increase. The forecast new construction levels will be well matched to the approximately 1,700 new households that will be added to the Victoria region annually over the next five years (See Figure 1).[2]

First quarter 2014 housing starts in the Victoria area were one-third below levels recorded during the same period last year. This decline was led by a decrease in the number of multiples starts, which offset an up-tick in single-detached home building. This trend is expected to continue through the remainder of 2014, with single-detached home building focused in western communities, such as Langford and Sooke where household growth is concentrated (See Figure 2) and home prices are relatively less expensive than the core area.

Figure 2



Sources: BC Stats P.E.O.P.L.E. 2013 projections
* Note: G.Victoria includes Victoria, Esquimalt, Oak Bay and View Royal; Sooke includes Sooke, Langford, Colwood, Metchosin, Highlands, and CRD Sub H and Saanich includes Saanich, Sidney, C.Saanich, and N.Saanich.

Langford and Saanich continued to lead new home construction in the region so far this year. More than half of the housing starts in the Victoria CMA were in these two centers. Two-thirds of the new homes in Langford were singles. Multiples construction activity in Saanich made up three-quarters of the starts. The majority of these starts were apartment condominiums.

Despite a 40 per cent decline in absorptions (sales) during the first quarter of this year, the standing inventory of completed and unabsorbed homes was modestly below year-earlier levels at the end of March. This is because the number of completions was also nearly one-third lower, limiting the new supply coming onto the market. There were 568 unabsorbed units as at March 2014, of which 69 were single-detached homes and 499 units were multiples. Over the past year there has been a declining trend in completed and unabsorbed single-detached homes while multiples have trended upwards. For this reason, single-detached home building is expected to increase in 2014, whereas multiples construction will move lower.

In 2015, as the unabsorbed multiple-unit inventory is drawn down, and job growth strengthens, expect to see more multiple unit construction. Much of this construction will be geared to more price-sensitive buyers, including first-time home buyers, whose improving employment prospects may provide an impetus to make the move to ownership housing.

[2] BC Stats P.E.O.P.L.E. 2013 projections, CMHC calculation

MLS® Sales to Edge Higher

MLS® sales are expected to maintain a steady pace this year and next. In 2014, sales are forecast to be on par with last year's level at 5,700 transactions, and in 2015 sales will edge higher to 5,800 homes changing hands. A stable level of population growth combined with low mortgage interest rates and marginal job growth in 2014 will result in a steady level of sales. An expected modest pick-up in employment in 2015 will support a slight increase in sales activity. Mortgage interest rates are anticipated to begin gradually moving up in mid 2015, which may also cause a temporary upswing in sales as the spectre of further rate hikes may provide an impetus for home buyers to make a move sooner rather than later.

First quarter Victoria area MLS® home sales increased compared to the same period in 2013. Despite the improvement over year-earlier levels, sales remain below the ten-year average (see Figure 3). It should also be noted that first quarter sales last year were at their lowest level since 2000. Single-detached, townhouse, apartment condominium sales all reported increased resale activity. The uptrend in sales began in the second quarter of 2013 and continued through to year-end. As 2014 progresses and sales remain at a level consistent with most of last year, the overall trend will be one of stability.

Higher sales levels combined with a declining supply of listings have kept the Victoria area resale market in balanced conditions since the spring of 2013. This is the longest period that the market has been in balanced territory since before the financial crisis of 2008-2009. Balanced demand and supply conditions are forecast to persist through the forecast horizon, mainly due to the steady level of sales projected going forward. As a result, there will be little upward pressure on prices.

Figure 3

Source: MLS® data supplied and seasonally adjusted by CREA (data end point: March 2014).

The average MLS® home price is forecast to increase 1.6 per cent in 2014 to reach $488,800, and to edge up to $492,000 in 2015. Higher resale home prices will be supported by the recent declining trend in the number of homes available for sale, paired with steady sales. The average MLS® price grew by 7.1 per cent during the first quarter of this year, driven by a substantial increase in condominium apartment prices and more moderate single-detached and townhouse prices. Again, this first quarter comparison is against an unusually slow first quarter last year, so gains will be more modest as the year progresses.

The MLS® Housing Price Index (HPI) composite for the Victoria Real Estate Board area was 139.3 for March 2014, compared to 139.1 this time last year. This measure uses the concept of a benchmark home (inclusive of all single-detached, townhouses, and apartment condominiums). The benchmark represents a home with common attributes of typical homes in the Victoria area. A modest inventory of active listings, a pick-up in sales and the stability of the HPI over the past year point to continued balanced market conditions in Victoria.

Rental Apartment Vacancy Rates to Remain Stable

Demand for rental accommodation is expected to keep pace with an increasing supply, leading to relatively stable apartment vacancy rates this year and next.

Modest employment and population growth will generate demand for rental accommodation in the Victoria CMA through the forecast horizon. Victoria's role as a post-secondary education centre for southern Vancouver Island will also contribute to rental demand, particularly for purpose-built rental apartments. Because purpose-built rents tend to be lower than, for example, condominium apartment rents, some

students will opt for the former. This will help keep vacancy rates stable. The rental apartment vacancy rate is forecast to edge up from 2.8 per cent in 2013 to three per cent this year, and to dip lower in 2015, to 2.7 per cent.

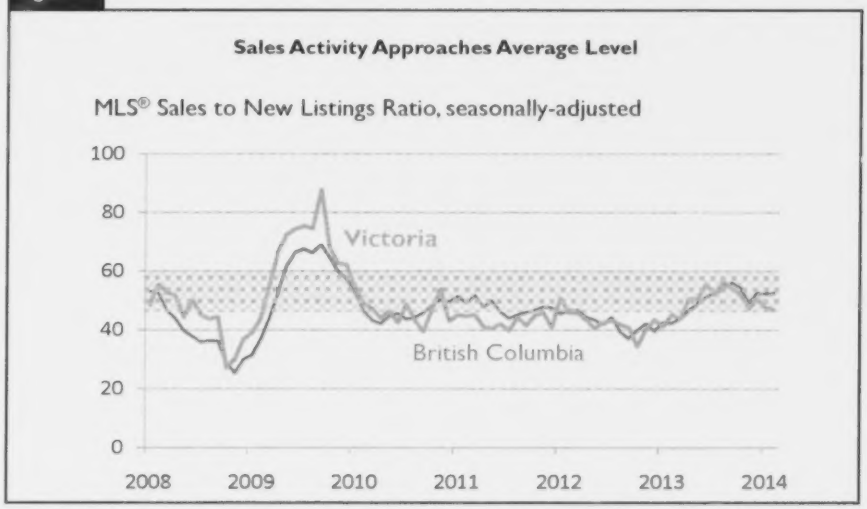
Population growth is forecast to add an average of approximately 3,000 people to the Victoria region each year until 2018. Millenials and retirees are the population groups projected to grow at the fastest pace during the next five years (See Figure 4), forming new households, some of which will choose rental housing. Many young Millenials will live in rental accommodation through their post-secondary and early working years before entering home ownership. Victoria's relatively high home prices, among the highest in the country, will support this trend. Likewise, retirees, particularly single people in their 70s and 80s, will remain in rental housing, maintaining their independence. The ongoing trend of seniors living longer, healthier, more active lives, will help maintain demand for rental accommodation.

The impacts of population growth and the expected pick up in employment putting downward pressure on vacancy rates will be tempered by a decline in employment among the 15-24 age group, which is traditionally a renter segment of the population.

New purpose-built rental currently under construction and units recently completed, as well as hotel conversion projects, are expected to increase supply at a faster pace than rental demand in 2014, putting upward pressure on the apartment vacancy rate in the near term.

Rent increases are projected to remain modest, with one-bedroom rents rising faster than larger units.

Figure 4



Source: MLS® data supplied and seasonally adjusted by CREA (data end point: March 2014).

Economic outlook supports housing demand

The Victoria area economy is expected to grow at a pace in line with the province, with fundamentals such as employment and population growth supporting a stable housing market.

A diversified economy will generate slow but steady job growth. A variety of amenities, a mild climate, educational and employment opportunities are expected to draw a steady stream of people from other parts of BC and Canada, adding to the region's population. However, ongoing fiscal restraint is expected to dampen demand for goods and services. In the first quarter, employment was down 1.2 per cent from the first quarter of 2013. Employment is forecast to grow 0.4 per cent in 2014 and 0.8 per cent in 2015.

With several large post-secondary institutions, Victoria's education sector provides a solid employment base as well as demand for rental housing from a large student population. Start-ups from these institutions and a growing technology sector will also lend support to the region's labour market.

Non-residential investment, which includes transportation infrastructure, commercial development, retail development and renovation, is forecast to generate jobs this year and next. In the first quarter of 2014, the value of commercial, industrial, government and institutional building permits issued in the Capital Region was double the value in the same period of 2013.

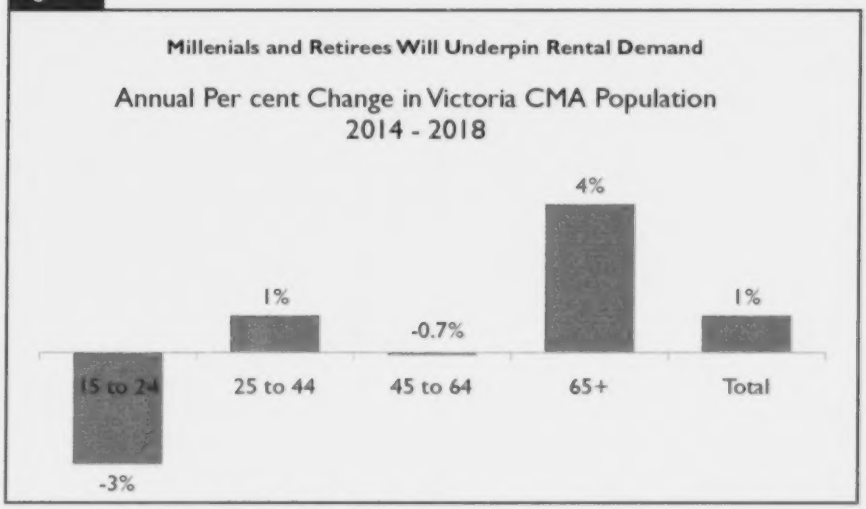
A lower Canadian dollar will benefit the tourism sector. Victoria International Airport reported a 6.2 per cent increase in total passengers during the first quarter of 2014 compared to the first quarter of 2013. The cruise ship industry, which brings a large number of visitors annually, is expected to see 207 ship visits in 2014, down marginally from 210 ship visits in 2013, according to the Victoria Port Authority. In addition, Victoria's shipbuilding industry is poised to benefit from several major national and international projects.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Figure 5



Source: BC Stats, PEOPLE 2013, CMHC calculations

Trends at a Glance

Key factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to rise gradually over the forecast horizon but remain near historical low levels. Current mortgage rates are supportive of housing demand.
Population	Population growth is expected to remain positive but below the five-year average in 2014.
Employment	A diversified economy will generate slow but steady job growth. Employment is forecast to grow 0.4 per cent in 2014 and 0.8 per cent in 2015.
Income	Real average weekly earnings remained stable in 2013, which will provide some support for housing demand in 2014 and 2015.
Resale Market	Resale market conditions for 2014 and 2015 are expected to be balanced.
Supply of New Completed and Unabsorbed Units	The supply of multiple-family dwellings has trended higher relative to past levels. Single-detached supply has been declining since 2013. New home construction continues to be held back by the current inventory levels.
Units Absorption	Absorptions have been declining, reflecting softening demand for new housing.

Forecasts Risks

This outlook is subject to some risks, including:

- The number of multiple housing units currently under construction in some local markets remains relatively high from a historical standpoint. As these units are progressively completed, inventories of newly completed and unabsorbed units may rise in the short to medium term, if they are not entirely absorbed by demand. Should the inventory of new units increase inordinately, builders may delay or reduce the size of some construction projects. This could lead to a sharper-than-expected moderation in starts.
- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary Victoria CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	609	552	514	590	14.8	590	0.0
Multiples	1,033	1,148	1,171	1,010	-13.7	1,210	19.8
Semi-Detached	84	86	60	65	8.3	80	23.1
Row/Townhouse	198	114	76	80	5.3	100	25.0
Apartments	751	948	1,035	865	-16.4	1,030	19.1
Starts - Total	1,642	1,700	1,685	1,600	-5.0	1,800	12.5
Average Price ($):							
Single-Detached	667,023	653,278	690,646	700,000	1.4	707,000	1.0
Median Price ($):							
Single-Detached	610,000	529,900	586,000	580,000	-1.0	592,000	2.1
New Housing Price Index (% chg.)	-1.6	-2.8	-1.3	-0.9	-	0.1	-
Resale Market							
MLS® Sales	5,773	5,460	5,691	5,700	0.2	5,800	1.8
MLS® New Listings	13,427	12,766	11,417	11,600	1.6	11,900	2.6
MLS® Average Price ($)	498,300	484,164	480,997	488,800	1.6	492,000	0.7
Rental Market							
October Vacancy Rate (%)	2.1	2.7	2.8	3.0	0.2	2.7	-0.3
Two-bedroom Average Rent (October) ($)	1,045	1,059	1,068	1,070	-	1,075	-
One-bedroom Average Rent (October) ($)	819	828	833	850	-	860	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level (persons)	182,000	186,100	183,700	184,400	0.4	185,900	0.8
Employment Growth (%)	-0.8	2.3	-1.3	0.4	-	0.8	-
Unemployment rate (%)	6.1	5.4	5.2	5.4	-	5.7	-
Net Migration	702	3,388	2,965	3,000	1.2	3,100	3.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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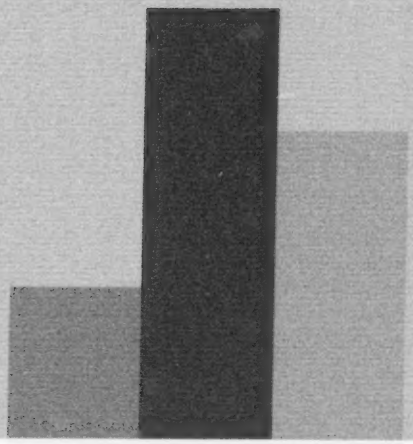

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